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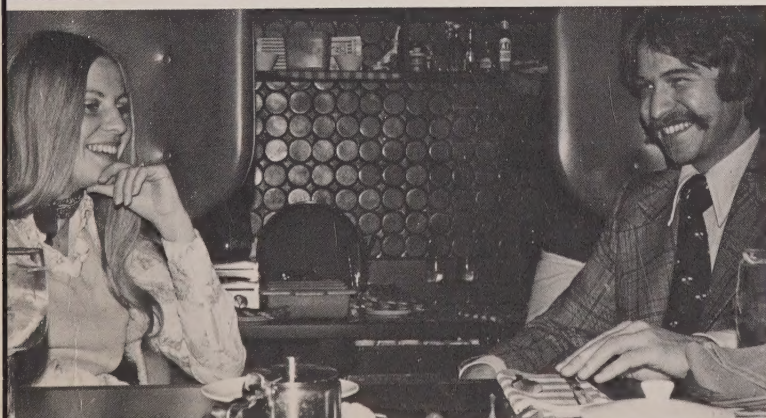
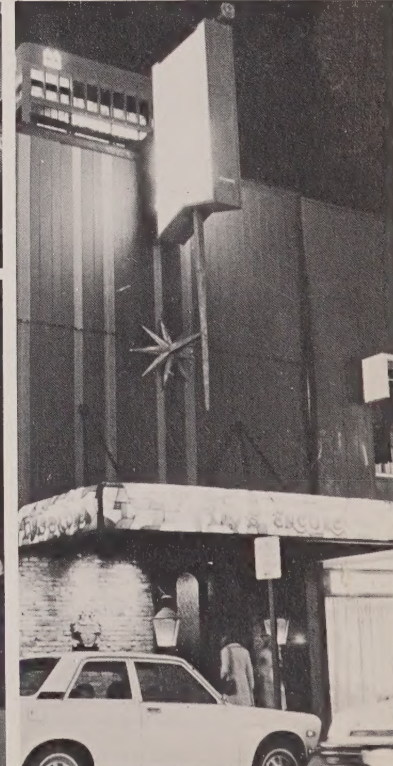
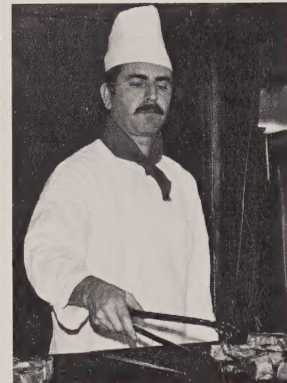
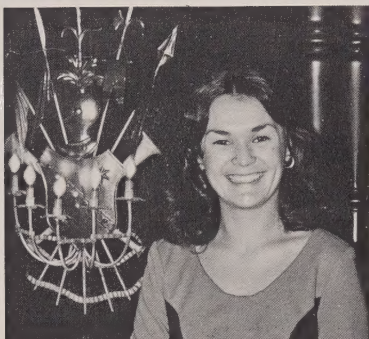
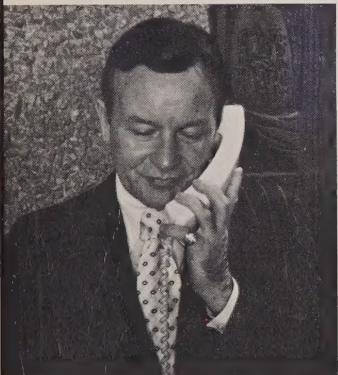



F&B
HY'S OF CANADA LTD.

Canary
ANNUAL REPORT 1974



HY'S
ENCORE





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HY'S OF CANADA LTD. ANNUAL REPORT / 1974

FINANCIAL HIGHLIGHTS / 5 YEAR SUMMARY

	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
Gross Income	\$12,551,000	\$9,136,000	\$7,479,000	\$6,683,000	\$5,501,000
Earnings before Extraordinary Items	593,000	548,000	364,000	193,000	115,000
Net Earnings	690,000	559,000	369,000	219,000	121,000
Earnings per Share:					
Before Extraordinary Items	.68	.63	.41	.22	.13
Net Earnings	.79	.64	.42	.25	.14
Dividends per Share	* .20	* .20	.10		
Total Assets	7,197,000	6,323,000	5,428,000	4,409,000	4,253,000
Shareholders' Equity	3,701,000	3,239,000	2,885,000	2,618,000	2,376,000
Shareholders' Equity per Share	4.26	3.72	3.32	3.01	2.73
Yield on Total Assets	9.6%	8.8%	6.8%	5.0%	2.8%
Yield on Shareholders' Equity	18.6%	17.3%	12.8%	8.4%	5.1%
Cash Flow per Share	1.39	1.16	.92	.70	.48

Note: The 1970 to 1972 figures have not been restated for all prior period adjustments.

Cash flow has been calculated by adding to net earnings depreciation, amortization and other non-cash items.

* Tax-paid.



Director's Report to Members

Despite highly problematic economic conditions during the fiscal year, coupled with spiralling costs, essentially of all foodstuff and labour, we are gratified to report increased earnings for the Company year ending September 30, 1974. Net earnings of 68¢ per share and an additional 11¢ per share in the form of extraordinary gains bring our total earnings for the full year to 79¢ per share, compared to restated earnings of 64¢ per share in 1973.

Cash flow has increased from \$1.16 to \$1.39 per share. These increases were achieved even though the only new operation opened by your Company in the past year is the 12 Caesars Restaurant, Vancouver, which is not one of our senior type steak houses and is still in the initial stages of shakedown and not yet contributing to our profits; however, successful operation is anticipated. The Company has continued its policy of paying two tax paid 10¢ dividends per share per year.

In spite of what we consider very good results, the market price of our stock does not seem to reflect either the earnings or net book value shown in the five year summary included in this report. Since we believe that our future outlook is most optimistic, the Company has purchased some 15,000 of its own shares to the end of 1974.

No significant borrowings have been negotiated in this fiscal period and the Company has been able to finance expansion from cash flow. In this connection it should be noted that we are presently constructing our third large restaurant in Toronto, expected to open in the Spring of 1975. This is a beef house with emphasis on prime rib and is to be called Sherlock's on Sheppard Street. Capital expenditures in fiscal 1974 totalled \$915,000.00.

The reason for the 1973 restatement is a change in accounting methods to reflect the equity in earnings of 50% owned affiliates. It is noteworthy that this does not cover substantial interests of one third each in the Village Green Hotels in Duncan and Vernon, B.C., both of which have been enlarged in 1974 and are experiencing commensurately higher volume. We wish to state that your Company has smaller

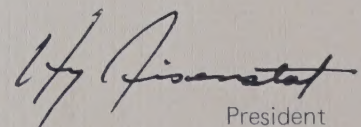
interests in the Spaghetti Factories located in Vancouver and Winnipeg and these too are not reflected on the equity method. Our shareholdings in the Keg'N Cleaver restaurant chain approximate 10% of the shares issued.

We must mention that because of the significant role that prime cuts of beef have in our business and the difficulties in obtaining quality product which occurred in late summer and fall of 1974, your Company has engaged in protecting its source of supply in several different ways. One method that we have already experimented with is the purchase of beef futures in order to hedge against rapid price increases. There are other significant safeguards and approaches also being undertaken to cover the eventuality that quality beef may be in short supply next year.

We have recently moved to a new Head Office location in Vancouver which we expect to provide greater efficiency and control over our operations. Your Company employed approximately 800 employees with a total payroll of \$3,300,000.00 as of September 1974 compared with 745 employees for a total payroll of \$2,650,000.00 in 1973.

Our future plans consist mainly of refurbishing and upgrading several of our existing operations and we are looking at the possibility of two or three major new restaurants in principal cities, both in Canada and the U.S. However none of these major restaurants or sites have been committed for to date.

On behalf of the Board


President



Directors of the Company



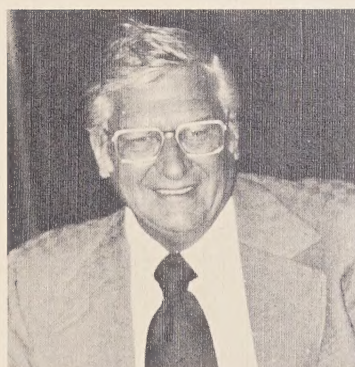
Hy Aisenstat
President
Hy's of Canada



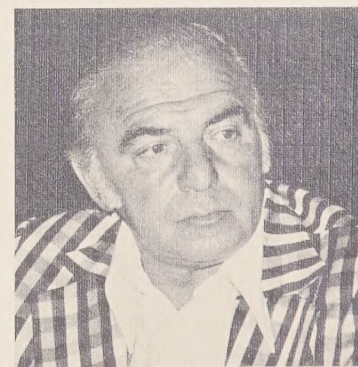
Don Rosebourne
Vice President
Hy's of Canada



Bernie Aisenstat
Vice President, Operations
Hy's of Canada



Joe Garfin
Real Estate Manager
Hy's of Canada



Jack Shatz
Eastern Division Manager
Hy's of Canada



Alan Eyre
President
Dueck on Broadway Ltd.



Arthur R. Smith
President
International Jet Air Ltd.



Richard C. Baxter
Chairman
The Baxter Group Ltd.



Consolidated Balance Sheet

September 30, 1974

ASSETS

Current

	<u>1974</u>	<u>1973</u>
Cash	\$ 299,000	\$ 89,000
Accounts receivable (note 2)	582,000	460,000
Beef commodity futures, at cost (market value \$146,000)	136,000	—
Inventories, at cost which is lower than net realizable value	474,000	326,000
Prepaid expenses and deposits	139,000	153,000
Due from directors and officers	14,000	16,000
	<u>\$1,644,000</u>	<u>\$1,044,000</u>

Investments

Affiliated companies (note 1(c))	193,000	348,000
Other, at cost (note 3)	211,000	164,000
	<u>404,000</u>	<u>512,000</u>

Fixed, at cost

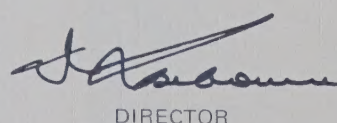
Buildings and leasehold improvements	4,702,000	4,058,000
Furniture and equipment	1,736,000	1,492,000
	<u>6,438,000</u>	<u>5,550,000</u>
Less: Accumulated depreciation	<u>2,041,000</u>	<u>1,599,000</u>
	4,397,000	3,951,000
Land	243,000	275,000
	<u>4,640,000</u>	<u>4,226,000</u>

Other

Deferred development expenses, contract rights and other intangibles, less amortization of \$564,000 (1973 — \$438,000)	<u>509,000</u>	<u>541,000</u>
	<u>\$7,197,000</u>	<u>\$6,323,000</u>

Approved on behalf of the Board:


DIRECTOR


DIRECTOR



LIABILITIES

Current

Bank indebtedness (note 4)	\$ 263,000	\$ 289,000
Accounts payable and accrued expenses	1,087,000	769,000
Income taxes payable.	274,000	167,000
Current portion of long-term debt	220,000	169,000
Deferred income taxes (note 6)	33,000	52,000
	<u>1,877,000</u>	<u>1,446,000</u>

Long-Term Debt, less current portion shown above (note 5) 1,169,000 1,377,000

Deferred Income Taxes (note 6). 267,000 233,000

Minority Interest 183,000 28,000

3,496,000 3,084,000

SHAREHOLDERS' EQUITY

Share Capital (note 7) 2,071,000 2,071,000

Retained Earnings 1,644,000 1,168,000

3,715,000 3,239,000

Less: Treasury shares (note 7) 14,000 —

3,701,000 3,239,000

\$7,197,000 \$6,323,000

The accompanying notes are an integral part of this financial statement.



Consolidated Statement of Earnings

For the Year Ended September 30, 1974

Income

	1974	1973
Sales	\$12,214,000	\$8,795,000
Management and rental income	195,000	229,000
Income from affiliates	142,000	112,000
	<u>12,551,000</u>	<u>9,136,000</u>

Expenses

Cost of sales and administration	10,070,000	7,181,000
Interest (note 5)	146,000	120,000
Real estate expenses and rent	610,000	408,000
Depreciation	444,000	328,000
Amortization of deferred development expenses, contract rights and other intangibles	126,000	59,000
	<u>11,396,000</u>	<u>8,096,000</u>

Earnings before Undernoted Items	<u>1,155,000</u>	<u>1,040,000</u>
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Provision for income taxes

Current	611,000	363,000
Deferred	(20,000)	122,000
	<u>591,000</u>	<u>485,000</u>
	564,000	555,000

Minority Interest in Loss (Profit) of Subsidiaries	<u>29,000</u>	<u>(7,000)</u>
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Earnings before Extraordinary Items	<u>593,000</u>	<u>548,000</u>
Extraordinary Items (note 8)	<u>97,000</u>	<u>11,000</u>

Net Earnings for the Year	<u>\$ 690,000</u>	<u>\$ 559,000</u>
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Earnings per Share

Earnings before extraordinary items	<u>68¢</u>	<u>63¢</u>
Net earnings for the year	<u>79¢</u>	<u>64¢</u>

The accompanying notes are an integral part of this financial statement.



Consolidated Statement of Retained Earnings

For the Year Ended September 30, 1974

Retained Earnings, beginning of the year

	<u>1974</u>	<u>1973</u>
As previously reported	\$1,108,000	\$ 814,000
Prior period adjustments (note 10)	60,000	10,000
As restated	<u>1,168,000</u>	<u>824,000</u>
Less: Dividends (note 9)	174,000	174,000
Part IX taxes (note 9)	28,000	32,000
Income taxes deferred in prior years (note 6)	<u>12,000</u>	<u>9,000</u>
	<u>214,000</u>	<u>215,000</u>
	954,000	609,000
Add: Net earnings for the year	<u>690,000</u>	<u>559,000</u>
Retained Earnings, end of the year	<u><u>\$1,644,000</u></u>	<u><u>\$1,168,000</u></u>

The accompanying notes are an integral part of this financial statement.



Consolidated Statement of Changes in Financial Position

For the Year Ended September 30, 1974

Source of Working Capital

Operations —

	<u>1974</u>	<u>1973</u>
Earnings before extraordinary items	\$ 593,000	\$ 548,000
Amounts not requiring a current outlay of funds		
Depreciation	444,000	328,000
Amortization	126,000	59,000
Deferred income taxes	34,000	108,000
Minority interest	(29,000)	7,000
Undistributed earnings of affiliates	(60,000)	(50,000)
	<u>1,108,000</u>	<u>1,000,000</u>
Long-term borrowing	90,000	1,000,000
Proceeds from sale of fixed assets and miscellaneous investments	176,000	9,000
Investment by minority interest	184,000	—
Income tax reduction as a result of losses carried forward	5,000	11,000
Reduction in investments in affiliates	203,000	(3,000)
	<u>1,766,000</u>	<u>2,017,000</u>

Application of working capital

Repayment of long-term debt	247,000	783,000
Increase (decrease) in current portion of long-term debt	51,000	(80,000)
	<u>298,000</u>	<u>703,000</u>
Additions to fixed assets	915,000	1,404,000
Additions to other investments	62,000	139,000
Deferred development expenses	94,000	180,000
Purchase of treasury shares	14,000	—
Dividends	174,000	174,000
Part IX taxes	28,000	32,000
Income taxes deferred in prior years	12,000	9,000
	<u>1,597,000</u>	<u>2,641,000</u>

Increase (Decrease) in Working Capital	169,000	(624,000)
Working Capital (Deficiency), Beginning of the Year	(402,000)	222,000
Working Capital (Deficiency), End of the Year	<u>\$ (233,000)</u>	<u>\$ (402,000)</u>

The accompanying notes are an integral part of this financial statement.

Notes to the Consolidated Financial Statements

September 30, 1974

1. Significant accounting policies

(a) Basis of consolidation — The consolidated financial statements include the accounts of Hy's of Canada Ltd. and all of its subsidiaries:

B & B Management Ltd.
 Babs Management Ltd.
 Bernbourne Management Ltd.
 Boyd Investments Ltd.
 Carman Investments Ltd.
 Duke Management Ltd.
 Enrose Management Ltd.
 Hycate Holdings Ltd.
 Hydon Holdings Ltd.
 Hy's of Chicago Ltd.
 Hy's Steak House (Eastern) Limited
 Hy's Steak Loft Ltd.
 Hy's Steak Out Ltd. (75% owned)
 Jet-Line Services Ltd., and its wholly-owned subsidiary,
 Hy's Steak House Ltd.
 Twelve Caesars Restaurant Ltd. (51% owned)

(b) Foreign exchange — Assets, liabilities, income and expenses of operations in the United States have been converted to Canadian dollars at par which approximates the average exchange rate for the year and that at the year end.

(c) Investments — In 1974 the company retroactively adopted the equity method of accounting for its investments in 50% owned affiliated companies resulting in the inclusion in consolidated net earnings of both the distributed and undistributed net earnings (losses) of such affiliates. The effect of this change was to increase net earnings for 1974 and 1973 by \$60,000 (7¢ per share) and \$50,000 (6¢ per share) respectively and to increase retained earnings at October 1, 1972 by \$53,000.

Investments in other affiliates (less than 50% owned) are accounted for by the cost method.

The consolidated balance sheet item "Investments — Affiliated companies" is comprised of:

	1974	1973
Advances	\$160,000	\$382,000
Shares, at cost	1,000	1,000
Equity in earnings (net) of 50% owned affiliates, less dividends received since acquisition of shares	52,000	(35,000)
	<u>\$193,000</u>	<u>\$348,000</u>

Notes to the Consolidated Financial Statements

September 30, 1974

1. Significant accounting policies (continued)

- (d) Depreciation — The provision for depreciation is calculated by the straight line method for all assets except automotive equipment which is calculated by the declining balance method. The estimated useful life of the assets concerned is 40 years for buildings, 10 years for furniture and equipment, and the term of the lease plus the first renewal for leasehold improvements.
- (e) Deferred development expenses; contract rights and other intangibles
- The companies capitalize as deferred development expenses all expenses incurred for a new restaurant prior to opening plus any operating loss for the first three months of operations (before depreciation and amortization). These costs are then amortized over a three year period.
 - Contract rights are amortized over the terms of the agreements.
 - Other intangibles, including share issue expenses, goodwill and excess of cost of shares over net book value of subsidiaries are amortized over twenty years.
- (f) Comparative figures — The 1973 figures have been reclassified where applicable to conform with the presentation used in the current year and have been restated for the change in accounting principle described in (c) above.
- (g) Rounding — All dollar amounts are presented to the nearest \$1,000.

2. Accounts Receivable

Included in accounts receivable is \$196,000 receivable on the sale of fixed assets (see note 8).

3. Other Investments

The company's investment (\$113,000) in shares of a public restaurant company is included in the consolidated balance sheet category "Investments — other". The quoted market price of these shares exceeds the company's aggregate cost. However, as a substantial number of the shares owned by the company are subject to a pooling agreement, the quoted market price may not be indicative of the value of these shares.

The remaining assets included in this category are marketable securities, an interest in a restaurant partnership and miscellaneous investments.

4. Bank Indebtedness

The bank indebtedness reflected in current liabilities on the consolidated balance sheet is secured by (i) a general assignment of book debts; (ii) pledge of certain marketable securities; and (iii) pledge of subsidiaries' shares.

Notes to the Consolidated Financial Statements

September 30, 1974

5. Long-Term Debt

Long-term debt is comprised of:

	<u>1974</u>		<u>1973</u>	
	<u>Amount</u>	<u>Due within one year</u>	<u>Amount</u>	<u>Due within one year</u>
Bank demand loan — bank prime rate plus 2% maturing in 1977. .	\$ 128,000	\$ 84,000	\$ 276,000	\$ 84,000
Industrial Development Bank Loans — 11% maturing in 1976 and 1980	113,000	42,000	155,000	42,000
Mortgages payable — 9% to 10% maturing from 1978 to 1983	991,000	52,000	1,019,000	29,000
Agreement for sale — no interest, maturing in 1977	32,000	14,000	47,000	14,000
Note payable — 10% maturing in 1977	90,000	28,000		
		Payments based		Payments based
Note payable — bank prime rate plus 1%	35,000	on sales	49,000	on sales
	<u>\$1,389,000</u>	<u>\$220,000</u>	<u>\$1,546,000</u>	<u>\$169,000</u>

Long-term debt is secured by specific charges on certain fixed assets and floating charges on the assets of certain subsidiaries.

The company has negotiated repayment of the bank demand loan over a number of years and accordingly this loan has been included in long-term debt.

Interest incurred during the year on long-term debt amounted to \$142,000 (1973 — \$81,000).

Notes to the Consolidated Financial Statements

September 30, 1974

6. Deferred Income Taxes

Income taxes of \$12,000 (1973 — \$9,000) deferred in prior years, but not recorded in the accounts, became payable during the current year and have been applied against consolidated retained earnings.

Accumulated deferred income taxes at September 30, 1974 amounted to \$324,000 of which \$24,000 (deferred in prior years) has not been recorded in the accounts.

7. Share Capital

Authorized

1,000,000 shares, no par value

Issued

870,000 shares

\$2,071,000

During the year the company purchased 4,500 shares of its own stock on the open market at a cost of \$14,000 (quoted market price at September 30, 1974 — \$14,000). Subsequent to the year end the company purchased an additional 10,500 shares for \$36,000.

8. Extraordinary Items

The amount shown on the consolidated statement of earnings as "extraordinary items" is comprised of:

	<u>1974</u>	<u>1973</u>
Gain on sale of fixed assets (net of income taxes of \$39,000)	\$119,000	\$ —
Income tax reductions resulting from the application of prior years' tax losses	5,000	11,000
Reduction in carrying value of advances to an affiliate and an interest in a joint venture	(27,000)	—
	<u>\$ 97,000</u>	<u>\$11,000</u>

Notes to the Consolidated Financial Statements

September 30, 1974

9. Dividends

During the year the company increased its tax-paid undistributed surplus on hand by the payment of taxes of \$28,000 (1973 — \$32,000). Dividends paid out of tax-paid undistributed surplus during the year amounted to \$174,000 (1973 — \$174,000).

10. Prior Period Adjustments

Prior period adjustments result from:

	<u>1974</u>	<u>1973</u>
Change to the equity method in accounting for 50% owned affiliates (note 1(c))	\$ (3,000)	\$ (13,000)
Reduction of prior years' income tax provision on resolution of assessments . . .	<u>63,000</u>	<u>(6,000)</u>
	<u>\$ 60,000</u>	<u>\$ 10,000</u>

11. Remuneration of directors and senior officers

	<u>1974</u>	<u>1973</u>
Eight directors in their capacity as directors	\$ 20,000	\$ 7,000
Five senior officers	<u>181,000</u>	<u>162,000</u>
	<u>\$201,000</u>	<u>\$169,000</u>

Notes to the Consolidated Financial Statements

September 30, 1974

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	<u>\$ 97,000</u>	<u>\$11,000</u>

Notes to the Consolidated Financial Statements

September 30, 1974

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	<u>1974</u>	<u>1973</u>
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Reduction of prior years' income tax provision on resolution of assessments . . .	<u>63,000</u>	<u>63,000</u>
	<u>\$ 60,000</u>	<u>\$ 60,000</u>

11. Remuneration of directors and senior officers

	<u>1974</u>	<u>1973</u>
Eight directors in their capacity as directors	\$ 20,000	\$ 7,000
Five senior officers	<u>181,000</u>	<u>162,000</u>
	<u>\$201,000</u>	<u>\$169,000</u>

Notes to the Consolidated Financial Statements

September 30, 1974

12. Commitments, Contingent Liabilities and Subsequent Events

(a) Lease rentals — Minimum rentals, excluding rentals based on a percentage of sales, under existing lease agreements will be approximately \$414,000 annually over the next five years. Total rent incurred for the year ended September 30, 1974 including rent based on a percentage of sales amounted to \$478,000 (1973 — \$371,000).

(b) Construction in progress — The estimated costs to complete projects in progress at September 30, 1974 is approximately \$1,100,000.

(c) Guarantees — The company is contingently liable as guarantor of loans and advances to affiliated companies up to \$1,650,000. Other parties have indemnified the company in the amount of \$1,000,000.

(d) Subsequent event — Subsequent to the year end the company increased its tax-paid undistributed surplus on hand by the payment of taxes of \$16,000. On December 18, 1974 the company paid dividends out of tax-paid surplus aggregating \$87,000.



Auditors' Report

To the Shareholders of
Hy's of Canada Ltd.

We have examined the consolidated balance sheet of Hy's of Canada Ltd. and subsidiary companies as at September 30, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1974 and the results of their operations and the changes in their financial position for the year then ended, after due provision for minority interests, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for earnings of certain affiliated companies to the equity basis as referred to in note 1(c), on a basis consistent with that of the preceding year.

Colin Love, Eddy Valiquette & Barrow

Chartered Accountants

Vancouver, Canada
December 27, 1974



Bankers:
Bank of Nova Scotia

Transfer Agents:
Canada Permanent Trust
Toronto and Vancouver.

Stock:
Listed on the Toronto and
Vancouver Exchanges.



Hy's Steak House,
73 Richmond Street West,
Toronto, Ontario

Hy's Yorkville,
133 Yorkville Avenue,
Toronto, Ontario

Hy's Steak Loft,
216 Kennedy Street,
Winnipeg, Manitoba

Hy's Steak House,
Midtown Plaza,
Saskatoon, Sask.

Hy's,
316 - 4th Avenue S.W.,
Calgary, Alberta

Hy's Steak Out,
College Mall,
Mayor Magrath Drive,
Lethbridge, Alberta

Hy's Encore,
637 Hornby Street,
Vancouver, B.C.

Hy's at the Sands,
1755 Davie Street,
Vancouver, B.C.

Hy's Prime Rib,
1177 West Hastings Street,
Vancouver, B.C.

Plaza II,
1075 West Georgia Street,
Vancouver, B.C.

12 Caesars Restaurant,
595 Hornby Street,
Vancouver, B.C.

Hy's Steak House,
777 Douglas Street,
Victoria, B.C.

Hy's,
100E Walton,
Chicago, Illinois

Little Harry's,
Hillside Shopping Centre,
3102 Shelbourne Street,
Victoria, B.C.

Kobe Japanese Steak House,
1042 Alberni Street,
Vancouver, B.C. (Affiliate)

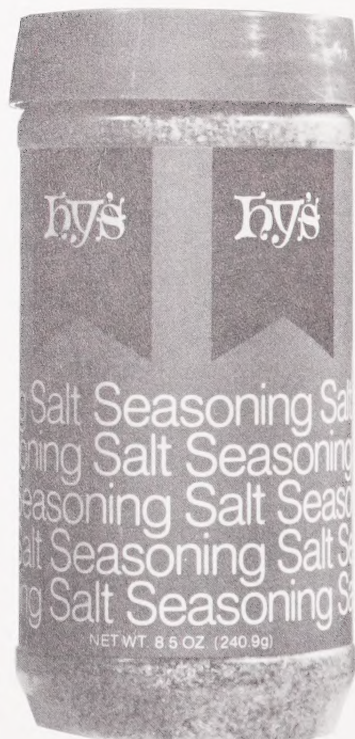
Kobe Japanese Steak House,
Honolulu, Hawaii (Affiliate)

Village Green Inn,
141 Trans Canada Highway,
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